

### **The Essential Services Commission**

The Commission became the independent economic regulator for Victoria's water and sewerage services in 2004. We had been undertaking a similar role for electricity, gas, ports and rail freight industries since 2002. We are responsible for regulating prices, levels of service and market conduct.

We report publicly on water businesses' performance annually so customers can compare levels of service with other parts of the state. To ensure that businesses comply with regulations, we also publish codes, guidelines, decisions, determinations, performance reports and independent external audits. Our past water price reviews include:

- 2005 - metropolitan and regional water businesses
- 2006 - rural water businesses
- 2008 - regional and rural water businesses and Melbourne Water's drainage and sewerage
- 2009 - metropolitan retail businesses and Melbourne Water

### **The 2013 water price review**

Every three to five years, the Commission performs a water price review which approves the prices and service standards for the next regulatory period. The current price review will set the prices from 1 July 2013. In October 2012, the water businesses submitted Water Plans which included the businesses' forecast costs, forecast demand, and the levels of service promised to customers for the third regulatory period (2013-2018, and 2013-2015 for Goulburn-Murray Water). These factors are used to propose prices to be charged over the period.

Key issues in the price review include:

- minimising price rise without compromising service levels
- ensuring water businesses continue to pursue service and operational efficiency improvements
- whether businesses have understood customers' expectations and willingness to pay for different service offerings and
- ensuring the financial viability of the water entities.

Our draft decision published in March 2013 sets out the Commission's detailed analysis, proposed adjustments and requests for further information from the businesses. In response to our draft decision, businesses' were given the opportunity to submit a revised pricing proposal. In reaching our final decision, we considered the businesses' revised pricing proposals and further issues raised by the businesses and other stakeholders. The businesses' proposed prices or the manner in which they are to be determined need to be adjusted to reflect our final decision on:

- the amount of revenue required by each business to deliver its proposed services and meet obligations over the regulatory period
- the level at which prices should be set and adjusted each year in order to recover the revenue required over the regulatory period and
- The basis on which prices should be structured to be consistent with the principles set out in the Water industry Regulatory Order (WIRO).

In the assessment of the businesses' Water Plans, we have consulted widely, have had regard to the information contained in the businesses' Water Plans, further information provided by the water businesses, the recommendations and views of consultants who assessed the businesses' forecasts, issues raised in submission and comments at public forums held across the State.

The prices or the manner in which prices are to be determined over the regulatory period are set out in a determination specific to each business. The determinations take effect from 1 July 2013 and will apply until the later of 30 June 2018 or when the Commission makes a new determination. More detailed reasons and analysis supporting the Commission's determination for each business are provided in our final decision.

## **The water team**

Our core team comprises around 14 regulatory analysts. Team members consist of regulatory economists, as well as experienced engineers. We have also engaged additional expert advice such as Deloitte, Cardno, PricewaterhouseCoopers (PWC), Frontier Economics, Farrier Swier and Sinclair Knight Merz (SKM) to assist in assessing forecast expenditure and demand.

## **Water price review 2008 versus water price review 2013. What's new?**

### *New Customer Contributions (NCC)*

Since the 2008 water price review, a new framework for businesses to charge new customer contribution (NCC) was developed. Water businesses have submitted proposals as part of their Water Plans.

Our final decision has approved the core pricing principles and the standard NCCs to apply in each water business.

### *Other issues*

The current period was overshadowed by drought that required businesses to undertake major investment in new forms of water supply. The third price period (2013-2018) will see reduced spending reflecting the completion of this investment phase. A number of water businesses have also changed tariff structures to reflect changed supply conditions.

## **For more information**

More information, including material from past price reviews can be found on the Commission's website [www.esc.vic.gov.au](http://www.esc.vic.gov.au).

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## Price review process and timelines

